



LOAN MODIFICATION OPTION

The Loan Modification options provides for either a permanent change in one or more of the terms of a mortgagor's loan, which allows a loan to be reinstated and results in a payment the mortgagor can afford. Ref: Mortgage Letter 2000-05.

FACTS

- A permanent change in the interest rate.
- Capitalization of delinquent principal, interest, or escrow items.
- Possible extension of loan term.
- The use of any three of the above items will result in the re-amortization of the loan.
- Maximum interest rate adjustment to current market rate plus 150 basis points although at mortgagee's discretion, note interest rates may be reduced below market.
- All or a portion of the PITI arrearage (Principal, Interest, and Escrow Items) may be capitalized to the mortgage balance.
- Foreclosure costs, late fees and other administrative expenses may not be capitalized. Mortgagees may collect the legal and administrative fees (resulting from the canceled foreclosure action), from mortgagors to the extent not reimbursed by HUD, either through a lump sum payment or through a repayment plan separate from, and subordinate to, the modification agreement.
- No administrative fees for completing the Loan Modification documents can be passed on to the mortgagor.
- The modified principal balance may exceed the principal balance at origination.
- The modified principal balance may exceed 100% loan-to-value.
- Mortgagees may re-amortize the total unpaid amount due over the remaining term of the mortgage, or may extend the term not more than 10 years beyond the original maturity date or 360 months from the due date of the first installment required under the modified mortgage, whichever is less.
- All Loan Modifications must result in a fixed rate loan.
- The Loan Modification must fully reinstate the loan.
- Subsequent defaults are to be treated as a new default.

ELIGIBILITY

- Minimum of 12 months elapsed since loan origination date.
- The mortgagor must be 62 days delinquent (3 full payments due and unpaid) or more.
- Default due to a verifiable loss of income or increase in living expenses.
- The Loan Modification mortgage must remain in first lien position.

- Loan may not be in foreclosure when executed.
- Owner-occupant, committed to occupying property as primary residence.
- Mortgagor has stabilized surplus income sufficient to support the Loan Modification mortgage.
- Does not have another FHA-insured mortgage.

PROCEDURES

- (1) Mortgagee is required to assess the mortgagor's financial condition.
- (2) Mortgagee must verify the property has no adverse physical conditions.
- (3) Home repair costs may not be calculated into the Loan Modification.
- (4) Mortgagee must comply with State and Federal disclosure laws or notice requirements, including whether recordation is necessary to maintain first lien position requirement.
- (5) Loans reinstated using a Loan Modification within the past three (3) years requires written justification prior to a subsequent modification.
- (6) Subsequent reason for default cannot be related to the previous reason for default.

If you have any question you may contact NSC at:

National Servicing Center

E-mail: hsg-lossmit@hud.gov

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